

Message Text

CONFIDENTIAL

PAGE 01 NEW DE 00703 141827Z
ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07
FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
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FM AMEMBASSY NEW DELHI
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INFO AMEMBASSY MOSCOW

C O N F I D E N T I A L NEW DELHI 0703

E.O. 11652: GDS
TAGS: ETRD, ENRG, IN, UR
SUBJECT: INDO-SOVIET ECONOMIC RELATIONS: TRADE PLAN FOR 1977
AND CRUDE OIL DEAL

REF: (A) 76 NEW DELHI 18763, (B) NEW DELHI 18383

1. EMBOFFS HAVE DISCUSSED RECENT AGREEMENTS ON INDO-SOVIET TRADE (REFTELS) WITH GOI OFFICIALS AND SOVIET ECONOMIC COUNSELOR. THESE CONVERSATIONS UNDERSCORED THE IMPORTANCE OF THE SOVIET OFFER OF CRUDE OIL TO THEIR BILATERAL RELATIONSHIP.
2. KUZNETSOV OF SOVIET EMBASSY RECALLED TO ECON COUNSELOR THAT INDIANS HAD BEEN ASKING USSR FOR CRUDEOIL FOR SEVERAL YEARS. SOVIETS HAD HAD TO REFUSE, HE SAID, BECAUSE OF GREAT DOMESTIC NEED. BUT, HE CONCLUDED, THE DECISION TO OFFER THE OIL WAS, "AS YOU KNOW, MADE AT THE HIGHEST LEVEL".
3. COMMERCE MINISTRY JOINT SECRETARY PREM KUMAR TOLD EMBOFF THAT INCREASE IN OVERALL LEVEL OF BILATERAL TRADE HAD BEEN FORESEEN AT THE TIME FIVE-YEAR TRADE AND PAYMENTS AGREEMENT WAS SIGNED LAST APRIL. FIGURES PROJECTED IN THAT AGREEMENT WERE LOW BECAUSE DETAILS HAD STILL TO BE WORKED OUT. POSSIBILITY OF

CONFIDENTIAL

PAGE 02 NEW DE 00703 141827Z

SOVIET OIL SALES HAD BEEN BROACHED DURING OFFICIAL LEVEL TALKS ON 1977 TRADE PLAN IN OCTOBER. KUMAR SAID HE WAS UNABLE TO COMMENT ON ECONOMIC SIGNIFICANCE OF OFFER FROM SOVIET POINT OF VIEW, ADDING, "BUT YOU KNOW IT IS VERY IMPORTANT FOR US". HE CONFIRMED OUR IMPRESSION THAT SOVIETS HAVE MAINTAINED STANDARD PRACTICE WITH REGARD TO PRICE, I.E; THAT PRICE WILL BE NEGOTIATED BY BUYING AND SELLING AGENCIES AT THE TIME SALES CONTRACT IS

SIGNED, ON THE BASIS OF PREVAILING WORLD PRICE.

4. MINISTRY OF INDUSTRY OFFICIAL HAS CONFIRMED THAT GOI DELEGATION RECENTLY WON SOVIET AGREEMENT TO SALE OF RS. 350 MILLION (APPROXIMATELY DOLS 39 MILLION) OF HEAVY EQUIPMENT FOR INCORPORATION IN SOVIET PROJECTS IN THIRD COUNTRIES. DELIVERY WILL TAKE PLACE OVER THREE YEARS. THIS IS FOLLOW-UP TO SMALL ORDER PLACED IN MID-YEAR. IT REPRESENTS SIGNIFICANT BREAKTHROUGH IN INDIAN EFFORTS TO CHANGE BASIS OF BILATERAL TRADE AWAY FROM "TRADITIONAL" PROJECTS, AS WELL AS SUCCESS IN FINDING MARKET FOR THE EXCESS CAPACITY OF SOVIET-FINANCED HEAVY ENGINEERING CORPORATION (HEC). EVEN MORE VALUABLE RESULT OF DELEGATION VISIT, ACCORDING TO THIS OFFICIAL, WAS SOVIET AGREEMENT TO ALLOW GOI TO SUBSTITUTE INDIAN EQUIPMENT FOR SOVIET EQUIPMENT IN BOKARO STEEL MILL EXPANSION PROJECT. AS ORIGINALLY PLANNED, SOVIET UNION WAS TO PROVIDE RS. 400 MILLION(DOLS 44 MILLION) OF EQUIPMENT WHICH INDIANS HAVE SINCE FOUND WAS AVAILABLE FROM DOMESTIC SOURCES. HAD SOVIETS INSISTED ON PURSUING ORIGINAL PLAN, INDIANS WOULD HAVE THEIR DEBT TO USSR INCREASED FOR GOODS THEY DID NOT NEED. (AIRGRAM ON THIS FOLLOWS.)

5. COMMENT: DESPITE KUMAR'S DISCLAIMERS, WE CONTINUE TO BELIEVE THAT HEALTHY GROWTH IN BILATERAL TRADE NOW PROJECTED FOR 1977 REPRESENTS RECENT SOVIET DECISION TO MAKE GREATER AMOUNT OF GOODS AVAILABLE FOR SALE TO INDIA, IN ADDITION TO OIL OFFER. WHILE HEC SALE IS VALUABLE, KUMAR CONFIRMED THAT NO PROJECT IN INDIA'S PET AREA OF "PRODUCTION COOPERATION" HAD BEEN WORKED OUT SINCE FIVE YEAR AGREEMENT WAS SIGNED.

CONFIDENTIAL

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PAGE 03 NEW DE 00703 141827Z

6. POL COUNSELOR HAS BEEN TOLD BY LOCAL REPRESENTATIVE OF A EUROPEAN PRESS AGENCY THAT TASS ELIMINATED ALL REFERENCE TO THE CRUDE OIL OFFER FROM ITS REPORTING ON RECENT NEGOTIATIONS. ACCORDING TO THIS CONTACT, OIL SALE TO INDIA HAS NOT YET BEEN MADE PUBLIC IN MOSCOW. EMBASSY MOSCOW'S COMMENT ON THIS POINT WOULD BE WELCOME, AS WELL AS ITS VIEWS ON ECONOMIC AND POLITICAL SIGNIFICANCE TO USSR OF OIL OFFER
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